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SUBJECT: SENATOR HAGEL MEETING WITH VIETNAM FINANCE MINISTER VU VAN NINH

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SENSITIVE - DO NOT POST ON INTERNET

¶1. (SBU) Summary: Senator Hagel met with Finance Minister Vu Van Ninh on October 6 to discuss Vietnam's economy and financial system.

During the meeting Minister Ninh stressed that Vietnam aims to join the WTO as soon as possible and that it appreciates the support from the U.S. administration and U.S. Congress in the upcoming Permanent Normalized Trade Relations (PNTR) vote. Ninh added that the energy sector is very important to Vietnam's development and the Government of Vietnam (GVN) has developed an energy strategy to better exploit these resources. Ninh assured Senator Hagel that Vietnam also understands the importance of reforming its banking and financial sectors. On infrastructure, Ninh said Vietnam's infrastructure requires "huge" amounts of capital, most of which will have to come from foreign investment. He admitted, however, that lengthy administrative procedures often hold up decision making and that international investors have concerns in this area. The government is working hard to address these and other concerns, specifically by taking steps to stem corruption. Over the next 20 years, Ninh predicted, high-tech, agriculture and marine exports will be areas of especially strong growth for Vietnam. End Summary.

¶2. (SBU) On October 6, Senator Chuck Hagel (R-NE) engaged Vietnam Finance Minister Vu Van Ninh in a cordial, but substantive, discussion of the challenges facing Vietnam's economy and financial system. The Senator was accompanied by the CDA, professional staff Rexon Ryu, military escort Lieutenant Colonel Gregg Olson, control officer and Embassy notetaker. Ninh's comments were in response to the Senator's direct questions.

¶3. (SBU) WTO and PNTR: Ninh said Vietnam aims to join the WTO as soon as possible and that the country appreciates the support from the U.S. administration and U.S. Congress in the upcoming Permanent Normalized Trade Relations (PNTR) vote. The GVN is greatly concerned about the PNTR vote as Vietnam hopes to obtain PNTR by the time President Bush arrives in November. "This is a very important time to bring the U.S.-Vietnam relationship to new heights," he said, adding that "we need financial support and investment to expedite reforms."

¶4. (SBU) Addressing Vietnam's energy needs: Energy development is

important to Vietnam's development and the Government of Vietnam (GVN) has created an energy strategy to exploit its resources, he said. The GVN is channeling significant resources from the budget to develop thermo- and hydro-electric plants and is working closely with foreign investors to exploit oil and gas. The country is also building a new refinery so that not all of Vietnam's oil will have to be exported. Ninh said Vietnam is seeking greater amounts of U.S. investment and urged Senator Hagel to encourage energy investment, particularly because Vietnam needs technology transfers.

Such transfers will be important if Vietnam is to meet its goal of graduating from the list of less developed countries by 2010, he said.

15. (SBU) Banking reform, North Korea: Vietnam understands the importance of reforming its financial sector as it develops the economy, Ninh said. The GVN has begun banking reforms with the help of the United States, and a U.S. delegation just conducted a finance reform training program at the Ministry of Finance. (Note: Ninh was likely referring to a U.S. Treasury Department assessment team on banking reform that visited earlier in the week. End note.) The development of Vietnam's capital markets and banking sectors were "very important and a great challenge," he said. On the restructuring of state-owned banks, he added, the GVN plans to implement reforms that would align management, monetary, and credit policies with market economy principles. The GVN will also allow joint stock and private banks to operate in order to increase competition and encourage growth. Many reforms remain in completed, however, particularly those involving the equitization of state-owned banks. Foreign investors will be able to participate in the management of banks via this equitization, he added. In regard to Vietnam's cooperation in blocking North Korean financial transactions, Ninh expressed the GVN's full commitment to meeting its international obligations on halting the proliferation of WMD.

16. (SBU) Infrastructure development: Vietnam has an enormous need for infrastructure development and this infrastructure requires

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"huge" amounts of capital, Ninh said. While Vietnam has invested seriously in infrastructure, there is much room for improvement. The GVN has a general strategy for infrastructure development for 2010 and 2020. To finance this development the GVN plans to mobilize resources from foreign and domestic investment in addition to concessionary loans from international donors. For this reason, the GVN holds consultative meetings with donors every year to coordinate aid. In response to Vietnam's needs and as a result of this strong coordination, the amount of overseas development assistance that Vietnam receives increases every year, he added.

17. (SBU) Streamlining government decision-making: Ninh admitted that the length of and lack of transparency in administrative procedures are a problem and a great concern to international investors. The National Assembly (NA) is working to pass legislation that creates a more transparent investor environment in Vietnam and the Prime Minister has recently signed a decree instructing government agencies to review and eliminate unnecessary procedures and licenses with an aim toward increasing government transparency, he said. The Prime Minister sits down annually with foreign investors to receive their feedback directly. Further, the GVN recently established a National Commission on administrative reform. Efforts to improve governance also extend to anti-corruption measures, Ninh noted. The NA has passed a law on anti-corruption, mismanagement and theft of government assets which holds the heads of government agencies accountable for wrongdoing within their organizations. The Prime Minister also signed a decree last month to this effect. Taken together, these measures will help streamline government decision making, stem corruption and create an enabling legal environment for business in Vietnam, Ninh said.

18. (SBU) Areas for growth and observations about foreign investment: Ninh asserted that over the next 20 years he saw particular growth opportunities for exports in the high-tech, agriculture and marine product sectors. Intel's recent decision to build a manufacturing facility in Vietnam was of great significance because it would attract other foreign investors and provide hi-tech training.

¶9. (U) This cable has been cleared by Senator Hagel's staff.

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